



# **Internal Audit Report**

## **MIHS Contracts**

*Area Agency on Aging*

*Gila County IGA for Psychiatric Care*

**February 2002**



### **Audit Team Members**

**George Miller, Audit Manager**

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# Internal Audit Department

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February 19, 2002

Don Stapley, Chairman, Board of Supervisors  
Fulton Brock, Supervisor, District I  
Andrew Kunasek, Supervisor, District III  
Max W. Wilson, Supervisor, District IV  
Mary Rose Wilcox, Supervisor, District V

We have completed our review of two Maricopa Integrated Health System (MIHS) contracts; an Adult Day Care services contract with the Area Agency on Aging and an intergovernmental agreement with Gila County. This audit was conducted in accordance with the Board approved audit plan. Our review focused on MIHS' controls over the two contracts.

Overall, we found that the parties contracting and subcontracting with MIHS comply with the terms of the agreements. We also found that MIHS' internal controls over these contracts are weak. Our specific findings and recommendations are detailed in the attached report. The highlights are:

- Our review of seventeen Area Agency on Aging claims found five (29%) that MIHS mistakenly charged to the wrong contract. This control weakness prevents MIHS from accurately calculating and reporting contract expenditures.
- MIHS does not adequately track billings and payments received pursuant to the Gila County intergovernmental agreement.
- MIHS does not adequately monitor the two contractors for compliance with agreement requirements.

We have attached our report package and MIHS' response, which we have reviewed with MIHS management. We appreciate the agency's excellent cooperation. If you have questions or wish to discuss items presented in this report, please contact George Miller at 506-1586.

Sincerely,

A handwritten signature in cursive script that reads "Ross L. Tate".

Ross L. Tate  
County Auditor

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# Executive Summary

## Claims Review and Payments

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Area Agency on Aging (AAA) Contract: AAA performs a thorough review of subcontractor billings prior to submitting an invoice to the Maricopa Integrated Health System (MIHS). However, MIHS does not adequately validate contract payments. We examined seventeen claims and found five (29%) that should have been charged to a different contract.

Gila County Intergovernmental Agreement (IGA): Gila County appears to closely monitor this agreement and reviews each MIHS billing before making payment. MIHS does not adequately review Gila County's payments or maintain a complete report of IGA patients served and revenue received.

MIHS's reliance on external validation of billings and payments due exposes the County to financial risk. MIHS should institute a process for validating claims payments and revenue received for these two agreements.

## Expenditure and Revenue Tracking

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AAA Contract: MIHS does not have an adequate method for accurately determining total expenditures associated with this contract. MIHS' financial report showing total contract expenditures mistakenly includes dollars expended for a separate meal delivery contract. The agency has regularly requested the Board of Supervisors to increase the contract "Not to Exceed" expenditure limit before the expiration date.

Gila County IGA: MIHS has not developed a mechanism to accurately identify patients served or revenue received under this IGA. MIHS reports one patient and \$7,000 of revenue while Gila County reports 13 patients and \$54,000 of payments made.

MIHS's inadequate expenditure forecasting and revenue tracking exposes the County to financial risk. MIHS should improve financial reporting controls over these contracts.

**Contract  
Compliance  
Monitoring**

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AAA Contract: The Arizona Department of Health Services and AAA closely monitor the subcontractors that provide adult day care services for MIHS clients. MIHS currently provides minimal oversight, however, the agency intends to implement a record review process during the upcoming months.

Gila County IGA: Gila County closely monitors the services provided under this IGA, as well as, the resulting billings and payments. MIHS' financial monitoring activities are minimal because the revenue generated by this IGA is not considered significant.

MIHS' reliance on external contract compliance review may subject County interests to risk. MIHS should institute a formal internal monitoring process for both agreements in order to verify all parties' adherence to contract requirements.

# Introduction

## Area Agency on Aging Contract

An agreement between MIHS and the Arizona Health Care Cost Containment /Long Term Care System (AHCCCS/ALTCS) requires MIHS to provide home and community based services to members in need. The County contracts with the Area Agency on Aging (AAA) to deliver these services.

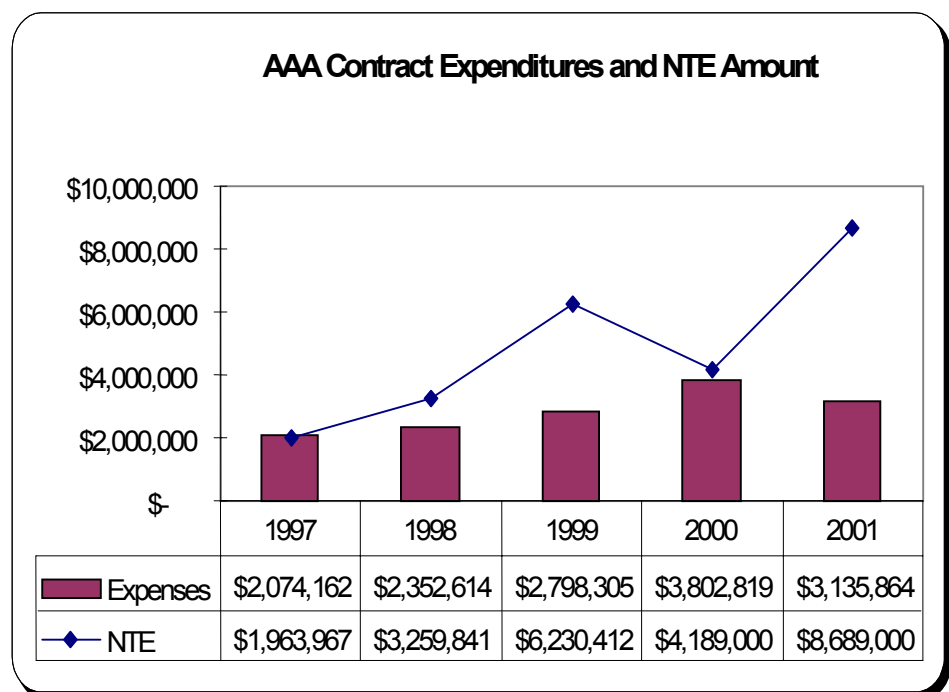
AAA is a national non-profit organization funded by the Federal Older Americans Act and the State of Arizona's Senior Adult Independent Living (SAIL) program. The County's \$8.7 million contract with AAA was approved by the Board of Supervisors (Board) and began March 2000. The contract runs through February 2003.

AAA utilizes sixteen sub-contractors to provide three types of services for Maricopa Managed Care system members. These are:

- Adult Day Health Care – authorized and billed by the day.
- Adult Day Care – authorized and billed by the hour.
- Traumatic Brain Injury – authorized and billed by the hour.

## Contract Expenditures

The County's total contract expenditures from January 1997 through December 2001 are estimated at \$13.6 million. Annual expenses and contract "Not To Exceed" (NTE) limits are shown on the graph below.



## **IGA with Gila County**

Through a Board approved Intergovernmental Agreement (IGA) with Gila County, the MIHS Psychiatric Center provides court ordered evaluation, detention pending hearing, and treatment services to Gila County residents pursuant to ARS 36-501. The IGA took effect January 20, 2000 and ends June 30, 2002.

This IGA was originally projected to generate approximately \$250,000 of revenue for Maricopa County, however, actual revenue appears to be much less. Gila County reports having paid approximately \$54,000, as of December 31, 2001, to Maricopa County for services provided. The amount of revenues reported by MIHS is less. We were unable to verify the actual total revenue.

## **Scope and Methodology**

Our audit objectives are listed below.

### AAA Contract

- Determine to what extent that AAA has fulfilled contractual obligations for providing services to the County.
- Determine if AAA billing invoices are adequately documented and comply with contract requirements.
- Determine if the amounts AAA has billed do not exceed the rates/amounts authorized by the contract.
- Determine if MIHS Contract Administration adequately monitors the AAA's performance and compliance with contract terms and conditions.

### Gila County IGA

- Determine if Gila County refers authorized clients to MIHS for mental health testing.
- Determine if Gila County pays MIHS for the mental health services provided, in accordance with IGA provisions.
- Determine to what extent MIHS monitors the IGA to ensure that services provided are billed to and reimbursed by Gila County.

This audit was performed in accordance with Government Auditing Standards.

# Issue 1 Claims Review and Payments

## Summary

Area Agency on Aging (AAA) Contract: AAA performs a thorough review of subcontractor billings prior to submitting an invoice to MIHS. However, MIHS does not adequately validate contract payments. We examined seventeen claims and found five (29%) that should have been charged to a different contract.

Gila County Intergovernmental Agreement (IGA): Gila County appears to closely monitor this agreement and reviews each MIHS billing before making payment. MIHS does not adequately review Gila County's payments or maintain a complete report of IGA patients served and revenue received.

MIHS's reliance on external validation of billings and payments due exposes the County to financial risk. MIHS should institute a process for validating claims payments and revenue received for these two agreements.

## Claims Process

AAA Contract: AAA receives bills from 16 subcontractor sites that list member name, type of service, number of units, and charges. AAA's Program Specialist compares site billings to MIHS' monthly Utilization Management report that lists the client authorizations. AAA reviews billings to ensure site services have been authorized and that the units and level of care match. Any discrepancies are checked with MIHS prior to submission of the claim. AAA then submits monthly bills to MIHS; each claim is for one individual.

Gila County IGA: The Gila County Attorney's Office reviews the MIHS billings for appropriateness and accuracy. If approved, the office initials the billing for payment and forwards the invoice to the Gila County Finance Department for check generation.

## Claims Testing

AAA Contract: We requested and obtained a report from MIHS Contract Administration for submitted claims having service dates from August through October 2000. We examined 17 claims (\$5,854 total), representing 1.1 percent of the \$549,272 charged against the three service codes, associated with the contract. The results of our review are summarized below:

- Adult Day Care (seven claims) – All claims were paid according to the contract rate, however, five claims were for meal delivery, which is a service provided under a separate contract.

- Traumatic Brain Injury (five claims) – All claims were paid according to the contract rate. No exceptions were found.
- Adult Day Health Care (five claims) – Four claims were paid at \$49/day rather than the contract rate of \$47.97/day. One claim was billed and paid at the correct rate, but the suffix code was incorrectly keyed as Traumatic Brain Injury.

MIHS reports that the new day care rates, effective October 2000, had not yet been loaded into the claims tables because the agency was working on a proposal for handling the rate increases. The proposal must be AHCCCS approved and then MIHS will incorporate a retroactive payment to the providers.

Gila County IGA: We obtained a report from the Gila County Department of Finance that lists voucher amounts with “Maricopa Health System” identified as the vendor. The department also attached “invoices,” which are copies of the claims. The report shows that Gila County has paid MIHS \$54,000 for thirteen claims.

We compared this information to a listing provided by the MIHS Contract Administrator. The MIHS report shows \$7,000 of IGA revenue (charges for one patient) received from Gila County. Apparently this report is incomplete because several plan codes have been used to record services performed pursuant to the IGA. Without an accurate payment recording mechanism MIHS cannot ensure that all services provided to Gila County are billed and paid.

We also found that Gila County occasionally deducts five to eight percent from its MIHS billings for “prompt pay discount.” However, the IGA does not authorize this payment deduction.

## **Recommendation**

MIHS should institute a process for verifying the claims payments and revenues for the above two agreements.

# Issue 2 Expenditure & Revenue Tracking

## Summary

AAA Contract: MIHS does not have an adequate method for accurately determining total expenditures associated with this contract. MIHS' financial report showing total contract expenditures mistakenly includes dollars expended for a separate meal delivery contract. The agency has regularly requested the Board to increase the contract Not to Exceed (NTE) expenditure limit before the expiration date.

Gila County IGA: MIHS has not developed a mechanism to accurately identify patients served or revenue received under this IGA. MIHS reports one patient and \$7,000 of revenue while Gila County reports 13 patients and \$54,000 of payments made.

MIHS's inadequate expenditure forecasting and revenue tracking exposes the County to financial risk. MIHS should improve financial reporting controls over these contracts.

## AAA Contract History

The County's original Adult Day Care Services contract with AAA started January 1, 1997 and expired December 31, 1997. An expenditure limit was set at \$2.3 million. In June 1998 the Board extended the contract through December 1998 and increased the NTE expenditure limit to \$3.3 million. No contract was in effect from January 1999 through January 2000.

The Board approved an amendment in March 2000 extending the expired contract two months (January through February 2000) and increasing the NTE to \$6.2 million. In April 2000 the Board approved another two-year contract with a NTE limit of \$4.2 million. As of December 2001 contract expenses had exceeded the NTE amount by \$1.8 million, therefore, MIHS developed an amendment to increase the NTE by \$4.8 million and extend the contract through February 2003. This proposal was approved by the Board in January 2002.

## NTE Escalations

MIHS management provided two explanations for the consistent NTE amount increases:

- The original estimated amounts possibly were based on an anticipated dramatic reduction in the Arizona Long Term Care System (ALTCS) population because two new service competitors had entered the market. However, MIHS's market share has remained at approximately 70 percent.

- The ratio of the ALTCS nursing home population to members receiving home and community-based services historically was 80:20. The ratio now is approximately 50:50.

MIHS Contract Administration monitors total Adult Day Health Care contract expenditures against the NTE amount. Its October 2001 review showed that expenditures had exceeded the \$4.1 million NTE amount, triggering the latest amendment request. However, we found that no explanation for the increase accompanied the request.

### **Gila County IGA Revenues**

We reviewed MIHS' financial reporting system to identify payments made by Gila County for the IGA test sample claims. MIHS reports that the IGA has not been assigned a specific plan code, which is the normal procedure. Differing plan codes have been used as a result of inconsistent verbiage in the descriptor field. This means that all payments received have not been receipted against the IGA. Therefore, the total revenue generated from this IGA can not be readily calculated.

### **Recommendation**

MIHS should develop a process for:

- A. Accurately calculating AAA contract expenditures.
- B. Explaining material differences between AAA contract projected and actual expenditures.
- C. Tracking charges billed to Gila County and the subsequent payments, pursuant to the IGA.

# Issue 3 Contract Compliance Monitoring

## Summary

AAA Contract: The Arizona Department of Health Services and AAA closely monitor the subcontractors that provide adult day care services for MIHS clients. MIHS currently provides minimal oversight, however, the agency intends to implement a record review process during the upcoming months.

Gila County IGA: Gila County closely monitors the services provided under this IGA, as well as, the resulting billing and payments. MIHS' financial monitoring activities are minimal because the revenue generated by this IGA is not considered significant.

MIHS' reliance on external contract compliance review may subject County interests to risk. MIHS should institute a formal internal monitoring process for both agreements in order to verify all parties' adherence to contract requirements.

## Contract/IGA Requirements

AAA Contract: All adult day care health service providers (subcontractors) must be licensed by the Arizona Department of Health Services (DHS). Additionally, Title 9 (Chapter 10) of the Arizona Administrative Code addresses the rules for Adult Day Health Care Facilities. The County's contract with AAA contains hourly and daily cost rates by location.

Gila County IGA: Gila County is required to pay Maricopa County \$415 per day for the court ordered mental health evaluations and related services received by Gila County residents. These services are provided and billed by MIHS.

## External Monitoring Activities

AAA Contract: DHS performs a 100 percent compliance review of AAA sub-contractors, based on State licensing rules, prior to issuing a license and recertifications when licenses expire. The DHS review is comprehensive and includes thirteen vital areas ranging from care plans to environmental and safety standards.

AAA does not replicate the DHS licensure review, however, the agency closely monitors its subcontractors' billings and records. AAA's objective is to select premier service providers and partner with them to offer the best level of client care. A center's license and certification does not guarantee appropriate levels of activities. Therefore, AAA requires each of their sites to meet the full range of activity level needs.

AAA monitors the centers' staff training programs, staff progression, and care plan roster. The agency receives each site's State licensure report (covering 1 to 3 years) and follows up to ensure all non-compliance issues are resolved. AAA forwards its annual review of each center to MIHS.

Gila County IGA: After MIHS performs an authorized mental health evaluation and submits a billing to Gila County, the Gila County Attorney's Office reviews the bills for appropriateness and accuracy. Payment is based on the IGA rate of \$415/day. If approved, the office initials the billing for payment and forwards the invoice to the Gila County Finance Department for check generation.

## **MIHS Review**

AAA Contract: Our examination of MIHS contract administration reports found no documentation showing that the contract had been monitored. However, MIHS reports that the agency will begin reviewing individual client records.

MIHS' Contract Compliance Coordinator is responsible for monitoring insurance and licensing compliance for the 16 subcontractors. The latest check shows all insurance is up to date, however, licenses had expired for all the sites. We checked with DHS, using a sample of five licenses, and found all had been reissued between October 2000 and March 2001.

Gila County IGA: The MIHS Contract Administrator reported that relatively low dollar revenue contracts, such as this, are not closely monitored. Larger contracts are given closer scrutiny.

## **Recommendation**

MIHS should institute a formal internal monitoring process for both agreements in order to verify all parties' adherence to contract requirements.

## **Department Response**



*Count on us to care*

**Maricopa Medical Center**

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Phoenix, AZ 85003  
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**Maricopa Managed  
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February 7, 2002

Ross Tate  
County Auditor  
301 W. Jefferson  
10<sup>th</sup> Floor  
Phoenix, AZ 85003

Dear Ross:

I have enclosed our responses to the internal audit done recently on our contracts department. There were three findings related to two separate contracts. I have put these in the format requested with the attachment. It might be of interest to the Board of Supervisors that as a fully integrated health system, we are both a procurer and a provider of services. Therefore, the solutions of the action items related to these audit findings have to be done differently. The follow-up and security are thus done by two separate entities within Maricopa Integrated Health System. The contract for Area Agency on Aging will be monitored by our Health Plan. In this case, we are purchasing the service that we don't provide from our own delivery system. The contract with Gila County is a billing contract for us to provide services to their patients. Since this runs through our accounts receivable, this will be the responsibility of the billing office.

Thanks for providing the opportunity to improve our services.

Sincerely,

A handwritten signature in blue ink, appearing to read "Pat Walz", is written over a light blue horizontal line.

Pat Walz  
Chief Financial Officer

cc: George Miller, Internal Audit  
Melody Todd, Interim Business Office Director  
Jody Butera, Health Plans Controller  
Linda Mushkatel, VP Health Plans  
Steve Ellis, Director, Materials Management

**Maricopa Integrated Health System  
Contract Audit Response  
02/07/02**

**Issue #1: Claims Review and Payments**

**Recommendation:** MIHS should institute a process for verifying claims payments and revenues for the above two agreements.

**Response: Concur**

AAA Contract – We are currently implementing a new claims processing system. This information system from a company called OAO will process claims payments and will be linked to vendors by contract-defined procedures and services. The claims department will then be responsible for reviewing this in compliance with the contract terms.

**Target Completion Date: 06/30/02**

**Benefits/Cost:** Be able to ensure claims are paid according to contract and that the not-to-exceeds will be in compliance.

Gila County IGA – There's a program within the billing system that allows us to put all our contracts by insurance code into the system. When claims are paid, if there is any difference between the expected payment from the system and the actual payment, it will automatically sign a collector to this insurance code for monitoring and follow-up. This would preclude Gila County IGA from being paid incorrectly as the collector would be responsible for follow-up. We will begin using this system immediately.

**Target Completion Date: 04/30/02**

**Benefits/Cost:** Ensuring the accuracy of full payment per terms of the contract.

**Issue #2:**

**Recommendation:** MIHS should develop a process for accurately calculating AAA contract expenditures and explaining material differences between the AAA contract projected and actual expenditures.

**Response: Concur**

The contract not-to-exceed amount calculations will be documented based on historic utilization membership volumes. This documentation will facilitate variance analysis by comparing projected membership volume to actual experience. The OAO information system referred to under Issue #1 is being customized to track claim payments against not-to-exceed amounts by contract. Claims that will result in the contract amount exceeding the not-to-exceed amount will not pay. The claims will pend for adjustment to the not-to-exceed amount. The system will produce a not-to-exceed report to facilitate appropriate monitoring of not-to-exceed amounts.

**Maricopa Integrated Health System  
Contract Audit Response  
02/07/02**

**Recommendation:** Tracking charges billed to Gila County and the subsequent payments pursuant to the IGA.

**Response: Concur**

As mentioned under Issue #1, there is a system within the billing system that has not been used to monitor this account. This will be done and a collector will be assigned to review the claims payment.

**Target Completion Date: 04/30/02**

**Issue #3:**

**Recommendation:** MIHS should institute a formal internal monitoring process for both agreements to verify all parties' adherence to contract requirements.

**Response: Concur**

**AAA Contract** – At each contract renewal, we'll set up a monitoring mechanism to insure we have updated insurance records per the terms of the contract. As with most health care delivery systems, we rely on the state Department of Health Services to insure appropriate licensure. Department of Health Systems, the state licensing agency, is responsible for new and renewal licenses. If AAA had lost their license or if their licensure was not renewed, the state would be required to notify us in order to transition the patients to a new provider. Their primary role is protection of the patient. That is why we rely on them for licensure information. Further, AAA's report of external subcontractors compliance will be reviewed by the plan's medical director.

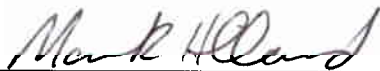
**Target Completion Date: 06/30/02**

**Gila County IGA** – All of our contracts will be monitored through the use of the computer system payment follow-up in the collections department.

**Target Completion Date: 04/30/02**



**Pat Walz, Chief Financial Officer**



**Mark Hillard, Chief Executive Officer**



**David Smith, County Administrative Officer**